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Multiple pressures and problems inherent in a military budget.

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THE  
GEORGE WASHINGTON UNIVERSITY  
NAVY GRADUATE COMPTROLLERSHIP PROGRAM

MULTIPLE PRESSURES  
AND PROBLEMS INHERENT IN A  
MILITARY BUDGET

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For

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January 1955



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## PREFACE

For the past three years, the writer has been closely associated with the field of budgeting in the United States Navy. He has participated in the process of budgeting at nearly all levels, including the formulation and execution of budgets at the levels of the field activity and the Navy Department, and the justification of budgets to Bureaus and Offices of the Navy Department, the Office of the Secretary of Defense, the Bureau of the Budget and, finally, to the Congressional sub-committee on appropriations for the Navy.

While experience obtained in formulating budgets at the field level has been the most useful from an operating standpoint, the experiences gained at the Departmental level have, by far, proved to be the most educational from the standpoint of gaining some knowledge of the "facts of life" about budgeting as applied to the Military, in general, and the Navy, in particular.

Most of the processes noted have evolved through much careful thought and a great deal of trial and error--through the medium of experience in meeting the multiple demands of, and or, those who must approve the budgets and appropriate the monies called for by those budgets. However, it is firmly believed that the many pressures upon the present processes tend to dilute the efforts of the Military, et al, toward realistic financial planning; it is about these pressures, and associated problems, that the ensuing paper is written with the goal in mind of recognizing some things known, or believed by many to exist, but about which little has been written.

The writer is indebted to the United States Navy for his present





opportunity to set aside his regular duties and study a matter which has interested him for some time.

All of the views expressed in the following pages are solely those of the writer and are not expressions of policy, official or otherwise.



## CHAPTER I

### BACKGROUND TO CURRENT MILITARY BUDGET PRACTICE

#### Introduction

The objective of the study which ensues is to highlight several of the pressures and problems which are believed to be inherent in the arduous task of producing a Military Budget, with particular reference to the United States Navy. The development of budgeting techniques in the Military has been meteoric since the close of World War II, and especially since the advent of the Performance Budget<sup>1</sup>, established pursuant to the studies and recommendations of the Hoover Commission<sup>2</sup>.

At this point, it is appropriate to remind the reader that the present trend in Federal budget methods does not represent the first effort of Congress to bring about increasingly minute examination of the details of costs.

#### Early Budget Experiences Between the Congress and the Military

Many of the early encounters between the Congress and the Military over budgetary matters stemmed from the practice of comingling unused balances of appropriations. Albert Gallatin<sup>3</sup>, one of the early proponents of detailing of

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<sup>1</sup>U.S. Congress, House. P.L. 216, 81st Cong., 1st Sess., H.R. 5632, National Security Act, Amendments of 1949, August 10, 1949. Washington: Government Printing Office, 1949.

<sup>2</sup>U.S. Government. Commission on Organization of the Executive Branch of the Government, Task Force Report on National Security Organization, January 1949. Washington: Government Printing Office, February 1949.

<sup>3</sup>Lucius Wilmerding, The Spending Power (New Haven: Yale University Press, 1943), pp. 33-49.





costs and restricted use of appropriations, was at constant odds over that principle with Oliver Wolcott, Jr., Alexander Hamilton's successor as Secretary of the Treasury. Then, as now, the overwhelmingly largest portion of the Federal budget was for military appropriations. Unscheduled demands on the Military resulted in Executive decisions to use appropriations for purposes other than for which approved by Congress. Wolcott favored considering appropriations as general funds while Gallatin resolutely fought for appropriation language such as, "...shall be solely applied to the objects for which they are respectively appropriated."<sup>1</sup>

Despite opposition, such as expressed in the foregoing paragraph, there have been repeated instances through the years since the inception of the Federal budget when high Government officials have, in the National interest, approved expenditures of public funds in advance of Congressional approval, invoking the doctrine of *Salus Populi* as justification for the acts. Unfortunately, however, due to military crises, the largest percentage of such transactions have involved military appropriations, and the ensuing arguments over the propriety of the actions have reacted upon the Military, at times the more or less innocent bystander to the proceedings. Repeated instances of these and other disputes have had a cumulative effect on relations between Congress and the Military and, at least, have had indirect effects on other budgetary dealings with Congress. The residue of suspicion from these and other encounters carries down to the present day.

Many of the earlier financial actions by the Navy were severely criticized, among the most censurable of which was the tortuous interpretation by the Navy of the rule governing lapsing of appropriations. The rule specified

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Ibid., pp. 42, 47.





that balances remaining in the Treasury would lapse to the Surplus Fund after two years. This rule was circumvented by the ruse of withdrawing the Treasury balance by warrant and redepositing the warrant, thereby establishing the Navy's own balance with the Treasurer of the United States. With such reserves, the Navy could supplement current appropriations, as desired.

#### Legislative Trends in Military Budgeting

The practice described in the foregoing paragraph was brought to light as early as 1795<sup>1</sup>, and led to the invoking by Congress of closer restrictions on the 1797 appropriation bill. However, loose practices continued and brought on several other restrictions imposed by the Appropriation Act of 1820, no less a personage than Henry Clay leading the support for such restrictions. However, general laxity continued unabated until 1868, when Congress first voted punitive measures into the Appropriation Act<sup>2</sup> in an effort to obtain conformance to its desires.

These are but fragmentary highlights of a history of ebb and flow in the temper of Congress in its efforts to express its desires in legislation designed to control the appropriation and expenditure of public funds. There were many ensuing cycles of alternate periods of virtual disinterest and acute preoccupation in the manner in which the executive agencies handled their money. There were strong proponents of a school of thought which was reluctant to impose any restrictions on the Executive, even to the extreme of permitting a carte blanche to incur expenditures a priori the appropriation of funds. The noble purposes which these gentlemen pursued were generally laudable in intent, but in far too many instances, were distorted in practice by those administering the funds in

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<sup>1</sup>Ibid., p. 42.

<sup>2</sup>U.S. Congress, House. 40th Cong., 2d Sess., H.R. 14, Appropriation Act OF 1868. Washington: Government Printing Office, 1868.





the executive agencies. Nevertheless, the moments of these cycles gradually narrowed toward the practices of the present day, due mainly to the efforts of the proponents of the opposite extreme of thought--acute restriction. The extreme points of view were mitigated by the temperate and levelling force of those who desired that both the letter and intent of the law be observed--that indeed, the doctrine of *Salus Populi* applied at times--that Congress could not always legislate before the fact of need, or in stultifying detail such as to tie the hands of the Executive Department.

### The Advent of the Business Man in the Military

The cumulative efforts of Congress to bring about adequate controls over the public purse have been largely due to the interest of a few, some skilled in the intricacies of finance through experience in the field of business, and others, merely interested. Of all of the representatives in Congress, at any given time, there are few indeed who are really informed on budgetary matters, and, of these, even fewer who understand adequately, in detail, what they are informed about. Nevertheless, their cumulative efforts over the past decades have brought us to the present, vastly improved, system of financial controls. The Budget and Accounting Act of 1921, as amended in 1939, at last provided a basic machinery with which it was made feasible to establish organized financial control. Up to 1921, a labyrinth of legislation, Executive Orders, and individual executive agency administrative procedures provided a completely uncoordinated basis for the expenditure of public funds. The Act of 1921, while in itself inadequate, was a great, single legislative effort by Congress to establish a workable approach to the problem.<sup>1</sup> Progressively, since 1939, when the Act of

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<sup>1</sup>John A. Pfiffner, Public Administration, New York: The Ronald Press, I, p. 53



1921 was amended to establish the Executive Office of the President, the coordinated skills of the executive agencies have improved in such matters as record keeping, reporting, budget formulation, and controlled budget execution. The disruptive effects of World War II and the Korean Conflict have, of course, diluted the quality of financial control, per se, but the methods through which such controls are exercised have constantly improved, in general. This is believed to be due, in part, to the cumulative effects of large scale employment in Government of business men in both World Wars I and II, the Korean Conflict, and during the Great Depression. It cannot be denied that the military managers and the business managers always have had much to learn from each other, and it is further believed that relatively continuous association of the two groups over this period has seen great progress toward reconciliation of their views. Still further, it is believed that a reasonably secure marriage of the interests of both could be realized were it not for the multiple pressures exerted on them by the realities of politics of all sorts which, at times, tend to frustrate their combined aims. It is about these pressures and problems that the ensuing chapters are written. No one who enters the field of military budget work should be unaware of these inhibitions which are inherent in the puzzle of financial management of the staggering sums of money with which they will be concerned.





## CHAPTER II

## MULTIPLE PRESSURES IN MILITARY BUDGETING

Congressional Pressures

One of the groups that displays great interest in the Military budget is the Congress. Actually, the budget of the United States is classified as a joint budget sponsored by Executive and Legislative Departments. The Executive prepares it for Congress' consideration and the Congress enacts it into law and appropriates the money called for by the budget. Needless to say, memberships on the Senate and House appropriations committees are powerful positions, and much of the budget justification material presented in the course of Congressional hearings is tailored to reflect illustrative examples applicable to the constituencies of the Congressmen sitting on the sub-committee conducting the hearings. While it might be argued that this type of presentation is politically devised and misleading in its intent, it is true that the budget becomes more understandable to the inquiring Congressman, when expressed in terms close to his own political interests. Besides, there is the implied pressure by the Congressman, insofar as his interests are concerned, that it would be inadvisable to recommend de-emphasis of an activity located in his constituents' geographic area, even though general reductions were the order of the day.

The obverse of the foregoing is also true. After a budget has progressed through its formulation cycle and has been marked up--that is, tentatively revised and resubmitted to the preparing agency for reclama proceedings--it is not uncommon to distribute the reductions generously to the activities located within the home areas of the Congressmen to whom the reclama justification is submitted. Although this type of action could be considered unfair, it can be held that it





is equally as fair as the method by which the overall reduction was established by the appropriations committee. The word "reduction" is used as being synonymous with the words "mark up". Seldom, if ever, is the result of mark-up proceedings other than a reduction. More often than not, the reasons advanced for a reduction are vague and, seemingly, not germane; in fact, still more often, no reason at all is given. Therefore, the above procedure is a natural reaction to the very real, though implied, pressure of the Congressional committee members to adopt a policy of laissez faire toward their interests.

Another type of Congressional pressure on military financial management results from the groups of Congressmen travelling in connection with committee work during adjournment each year. Invariably, there are public statements made regarding military inefficiency in managing money, amongst other criticisms; and these statements can seldom be challenged publicly by the Military organization being called to task. An excellent example of this is offered currently<sup>1</sup> in the statements of a touring group of Congressmen who visited Spain and severely criticized the Navy's cost accounting requirements in connection with contracts for work being performed on the United States bases in Spain. How a touring committee could have made a sufficiently detailed examination of the records of such vast efforts as are presently in progress in Spain seems subject to question; however, a great amount of time and effort must now be devoted by the Navy to patiently explain why the Navy uses the cost accounting method in question. In all probability, it will be found that the Navy is following an acceptable practice as borne out by indications in the press.<sup>2</sup> Conversely, the Air Force was praised

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<sup>1</sup>Washington Post and Times Herald, December 29, 1954, p. 1.

<sup>2</sup>Washington Post and Times Herald, December 31, 1954, p. 5.





for its methods; and it is, again, questionable that the group could have made an analysis that would substantiate its praise. While all of this makes excellent copy for the people back home, the Military must take action to investigate the charges and "take corrective action." Usually, the corrective action taken is a report to the Congressman raising the question, and nothing further is heard on the matter. However, the public is left with the impression that the Navy is not doing a good job.

In contrast to the foregoing discussion, and as a matter of related and timely interest, the Navy has been criticized recently for insufficiently detailed cost accounting by the Cooper Committee. Accordingly, the Navy is in the throes of explaining why it doesn't require such detailed cost records as the Committee seems to be convinced are required adequately to protect the public interest. The extremes represented by these two examples must be satisfied, a feat of leger-demain extremely difficult to accomplish.

#### Executive Pressures

The Executive Department, through the instrumentalities of the Joint Chiefs of Staff, the National Security Council, the Bureau of the Budget, the Department of Defense and the three military departments, each year establishes the criteria upon which the military budget is to be based. These statements of policy are never published in time to permit orderly development of a budget which will reflect that policy. Further, the policy itself, being derived at the top of the organization with benefit of little advice from the field level, is often very difficult to reconcile with the true needs of the field activities which are ultimately affected by the policy. Thus, the pressure applied by the Executive Department on itself, often results in a budget that does not reflect the real requirements of the Executive Department. There is mute evidence of





this in examples of sub-standard maintenance which results from such policy determinations or uneconomic investment of maintenance funds when the budget for capital expenditures is not permitted to reflect actual need. As a matter of fact, it may be argued successfully that the term "budget", as applied to the Nation's financial plan, is a misnomer, since the budgetary requirements are, in a broad sense, predetermined. This can hardly be accepted as sound budget practice; it is something other than budgeting, in the generally accepted meaning of the term.

The lack of timely promulgation of criteria inhibits the very preparation of the budget documents which are required. The lack of authority to state true requirements further inhibits the quality of the financial plan. These two pressures are perhaps the most difficult to comprehend and reconcile with the earnest desires of those directly concerned with the accomplishment of the mission of the Military.

The military budget is strongly affected by economic considerations. Even in time of relatively peaceful conditions, public spending is one of the most important factors in the American economic system. The military spending consumes more of the Public's funds than any other segment of the Federal Government and constitutes approximately one-third of the aggregate demand for output of the entire economy.<sup>1</sup> During a period of inflation, it is a widely accepted economic principle to reduce public spending and apply tax revenues to reduction of the Public Debt. During a period of depression, it is, likewise, a widely accepted economic principle to increase public spending to stimulate the sagging economy. Neither of these considerations recognize the requirement for military protection, no matter how important it may be. It is recognized as altogether possible that the total military requirement—if it were possible to firmly establish the total

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<sup>1</sup>Arthur E. Burns, et al. Modern Economics, 2d Edit. New York: Harcourt, Brace and Company, Inc., 1953, p. 583.





military requirement—simply cannot be afforded. This agonizingly difficult consideration must be weighed by the Executive Department and the best possible solution reached. Invariably, the solution represents a compromise between the requirement and that which is feasible of accomplishment. Further, it is not uncommon for Congress to suggest areas in which the Military should emphasize spending in the interest of bolstering a particular segment of the economy. The fiscal year 1955 budget included special provision for construction of housing at military bases which the Military originally had not requested—this despite reductions in maintenance money in other areas deemed necessary by the Military. The amount specifically earmarked for this construction work was determined by Congress.

#### Public Pressures

The general public must be reckoned with in the budgetary plans of the Military. There are an infinite number of ways that this pressure may be felt by the Military, not the least of which is the Press. The number of editorials and other newspaper articles which have had incremental effects on military budgets cannot be counted. Much of this type of pressure stems from true expression of public sentiment. An excellent example is found in the following account. It had been determined after long study that it would be advisable to relocate a naval activity from its present location in Port Hueneme, California to St. Louis, Missouri. Port Hueneme is a very small town in a rural location in Southern California. St. Louis is located in the state of the then President of the United States. Despite the fact that there were contemplated large savings to the Government, and operating advantages attendant to the proposed move, a swelling tide of pressure commencing in Port Hueneme, spreading to surrounding communities and finally to Los Angeles newspapers, finally resulted in active Congressional interest. The pressure from Missouri in favor of the move was not





great enough to overshadow that generated by the residents of a sleepy, little town in California which drew a large amount of its support from the naval activity concerned. Public pressure is real.

#### Local Command Pressures

It is not an unheard of situation that a local commanding officer follows a policy of requesting operating funds in excess of actual need, seeking to maintain bigness or expand his activity to enhance his prestige, or simply to permit a relaxed, inefficient operation to proceed uninhibited by considerations of efficiency, necessity or the national interest. These objectionable operating methods are inimical to the interest of the Navy, and, indirectly and adversely, affect every other hardworking member and activity of the Navy. Intentional overstatement of requirements through clever justification causes funds to be diverted from areas of need. One who has the task of preparing the local activity budget under such conditions is operating under most difficult circumstances, since he stands in danger of becoming a party to what amounts to dishonesty. Fortunately, there are few who pursue such local policy; however, there are far too many who, through lack of concern with, or knowledge of, what is going on, cause the same result to occur. In the latter instance, to request the same level of support as received the previous fiscal year, without searching reappraisal of need, is almost as censurable as overt action to overstate requirements.

#### Bureau of the Budget Pressures

The Bureau of the Budget has a tremendous task in carrying out its responsibility to produce an annual budget estimate for the United States Government and to administer the appropriations which Congress has approved. The problem of coordinating all of the multiple parts of the budget so that they will flow to the Bureau in a manner to permit orderly review and handling is an





acutely difficult one. Therefore, of necessity, an organized, physically workable plan<sup>1</sup> for producing the budget document within the time limits imposed by Congress must be employed. This plan is revised each year to reflect changes in requirements for information of the Bureau and Congress. While most of the pressure exerted by the Bureau relates to the physical problem of supplying timely information in the required format, there are other pressures which are encountered during the process. After the Bureau of the Budget has conducted its review of the Department's estimates, the estimates are returned with the indicated markup<sup>2</sup> for redevelopment of the estimates and/or reclama<sup>3</sup> proceedings. Those concerned with the basic task of redeveloping the information or developing the reclama justification usually have an utterly inadequate length of time during which to do so. This factor alone often discourages a Department from submitting reclama justifications, since to do so requires the strongest possible facts to support the request for reconsideration; and it takes time to develop a firm justification.

Mr. Percival F. Brundage<sup>4</sup>, Deputy Director of the Bureau of the Budget, describes the various considerations which a budget manager must take into account to discharge his responsibility effectively. He states:

A third and still different approach to the budget process is that of a manager. He realizes that the various segments of our economy rarely move in one direction at the same time and with the same speed. His responsibility is to keep the ship on an even keel and not allow the extremes in either direction to dominate policy. He is forced to consider the expenditures first--

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<sup>1</sup>U.S. Government, Executive Office of the President, Bureau of the Budget, Instructions for Preparation and Submission of Annual Budget Estimates, Circular A-11, August 9, 1954

<sup>2</sup>Supra, p. 7

<sup>3</sup>The reclama is simply a method to permit rejustification of amounts which may have been deducted during the course of review.

<sup>4</sup>P. F. Brundage, "A Critical Look at the Budget Process," Public Administration Review, XIV Autumn 1954, pp. 247-52.





the necessary and the desirable ones--and then to see how close he can come to raising revenues enough to cover them. However, it is more important to keep the economy going--on as stable a basis as possible and preferably with a balanced budget. But he tries to keep the economy balanced whether or not the budget is balanced. The psychological as well as the financial and economic implications of budget decisions he believes are becoming increasingly important. When he comes to consider the defense budget and the foreign aid program in particular, it is not the minimum amount that can be spent and still carry out our programs that determines the decision. A good manager has to provide reasonable protection for all of the known factors plus some leeway for the unexpected. Yet he must come close enough to a balanced budget, based on receipts computed under reasonable tax rates, to justify the confidence of all of the different groups in the country.

Your representatives in the Budget Bureau must consider all of these different points of view, but it is the primary duty of a budget officer to examine closely and rather skeptically all of the proposed expenditures of the Government. In dealing with departments that have proposed programs for new spending we must advance the conservative viewpoint of the businessman. But we cannot unduly restrict research in new fields like atomic reactors and guided missiles or improvements in public health services.

Obviously, the point of view expressed by the above quotation at times will not coincide closely with that of a military program for which funding is sought before the Bureau of the Budget. The pressure exerted by the Bureau to reconcile the proposed program of expenditures to its concept of balance often takes the form of arbitrary reductions. Sometimes, the Bureau can have no other basis for making its reductions if the justification material submitted is undeniably sound--it can only evaluate all programs and make the soundest decision consistent with the criteria which it is committed to follow. This was commented upon by Leonard D. White when he wrote:

The role of the central budget officer in this area of policy and administration has never been intimately described. It could be laid bare only by the immediate participants and is perhaps too confidential to be fully revealed. It would be significant to know to what extent the United States Bureau of the Budget influences substantive policy; to what extent it overrules, curtails, or amplifies agency programs, in what cases it acts without consulting the President; when an agency feels warranted in appealing Bureau decisions to the President (and why and with what success); to what extent the initial recommendations of a budget examiner against a department prevail; what strategy the departments employ to protect their estimates in the Bureau of the Budget and before the appropriations committees; and what means a President employs to protect his budget against attack or sabotage. Those who know these mysteries do not reveal them.

The crucial issue is, on what grounds and on what evidence do budget





officials approve, eliminate, or reduce proposals for expenditure. Budget officers do not disclose specific reasons for rejecting or reducing an estimate. In Washington, a phrase is current to the effect that a proposed expenditure is not in harmony with the President's financial policy, a formula which precludes discussion except with the President. The real reasons are various, and are sometimes remote from fiscal considerations.<sup>1</sup>

and:

Most budget experts assert that they have no policy except that which they receive from their principal. They are doubtless sincere in their opinion that they are neutrals before great public issues, but acquaintance with them quickly dispels any such illusion from the minds of their friends. They are doubtless sincere also in asserting that they have no views on the usefulness of spending money here rather than there; but their daily decisions betray them. This is not a criticism of budget experts, but a notice to those who may have to deal with them.<sup>2</sup>

#### Pressures from the Office of the Secretary of Defense

Brief mention must be made at this point of the effects of the efforts toward financial management of the Office of the Secretary of Defense in the annual budget process. Usually, this Office conducts its military hearings and reviews simultaneously with the Bureau of the Budget. This, of course, adds much importance to the hearings at that level, since the military department representative making the presentation is subjected to the combined scrutiny of these two important offices. The individuals who conduct these hearings are usually men of academic ability and reasonably well-versed in the problems of the areas under consideration. It behooves one to be well prepared to face these men for it is reasonably certain that they will soon be able to form an opinion of the soundness of the presentation being made. This, in itself, is a pressure that is resulting in the development of greater skill and clarity in budget estimate presentation work by the departments.

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<sup>1</sup>Leonard D. White, Introduction to the Study of Public Administration, New York: The MacMillan Company, 1950, pp. 264-265

<sup>2</sup>Ibid., pp. 266-267





There is also a negative pressure identifiable with this source and closely associated with one mentioned in the foregoing discussion of the Bureau of the Budget pressures.<sup>1</sup> It relates to the reclama proceedings. Since the final mark-up is achieved after a joint session with the Budget Bureau and the Office of the Secretary of Defense, the reclama justification must be submitted to the same joint group. This is a further discouragement against protesting the joint decision of these two high offices, and the writer is certain that many a reduction has been accepted reluctantly, rather than to again submit to cross-examination on a matter that probably has been discussed at length with the same people on a previous occasion. Even if one is successful in presenting an irrefutable justification, and the decision is reversed, it is not unlikely that the same, specific points will be raised by the Congressional sub-committee during its later hearing and review. It is believed that there is rather free exchange of information and close cooperation by the representatives of the Office of the Secretary of Defense, Bureau of the Budget, and the staffs of the Congressional sub-committees. Parenthetically, this can produce an unbeatable combination, as far as the departmental witness is concerned.

#### Military Department Pressures

It is quite possible that the pressure exerted upon the program budget estimates of the bureaus and offices is greatest at the departmental level. The hearings conducted at this level are, by far, the most exhaustive in their scope. The mark-up of the estimates is far more detailed and reductions usually involve greater sums of money than the mark-ups at higher levels. This is understandable in view of the fact that each individual department is responsible for the submission of a complete budget document in the prescribed format, the first such

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<sup>1</sup>Supra, p. 6.





document to be generated in the development of the estimates. There are bound to be many errors and inconsistencies during this primary formulation phase. In the Navy, the Office of the Comptroller of the Navy is responsible for this task, and must undertake to bring into focus all of the component parts of the Navy's budget estimates to form a cohesive document that is consistent, insofar as possible, in all of its parts. It is at this point, also, that each program must be analyzed to determine consistency in adherence to published criteria by all bureaus and offices of the Department. Criteria may take the form of letters or memoranda issued by the Bureau of the Budget, Secretary of Defense, the Secretary of the Navy, the Chief of Naval Operations, and other high officials. A well-presented justification may fall due to failure to adhere to these criteria; thus, the pressure of the Navy Comptroller's review is an important factor in assuring that the criteria are met.

It is through the Departmental Comptroller that most of the communications on budget policy, mark-ups, etc., are received and, as a result, there is frequent contact between that office and the bureau and office comptrollers. It is at this level that the official records are maintained of the military departments' appropriations; as a consequence, there is further frequent contact over the matter of appropriation accounting. Here, the closest scrutiny is exercised over the obligational rates being achieved by the bureaus and offices in order to keep pace with important spending trends which may develop. Statistical analyses are made of all parts of the Navy's financial picture to insure that the money is being used properly and in the right places. The results of such studies provide a basis for periodic review of the bureaus' and offices' spending plans in connection with apportionment proceedings<sup>1</sup> and also provide important information as

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<sup>1</sup>U.S. Congress, House, P.L. 759, 81st Cong., 2d Sess., H.R. 7786, Appropriation Act for the Fiscal Year Ending June 30, 1951, Sec. 1211. Washington: Government Printing Office, 1950.





regards the skill in financial management being exercised by the responsible bureaus and offices. Expenditure and obligation analysis of this type ultimately is utilized in the review of ensuing years' budget estimates and provides strong bases for decision regarding the efficacy of the estimates. A wildly fluctuating expenditure and obligation history will be no asset to one attempting to justify an estimate before the Navy Comptroller.

### General Pressure

There is one type of pressure which may be found to be common with most of those mentioned in the foregoing paragraphs of this chapter. There is barely time enough in a twelve-month period to produce a budget estimate document in time to permit a reasonably orderly review by Congress. As a consequence, it is not uncommon that determinations made by the Budget Bureau, which involve changes in the estimates, are transmitted informally; often, nothing in writing is seen by the bureau or office responsible for effecting the revisions in the estimates. If, for example, an adjustment in appropriation cognizance over certain types of expenses has been decreed by higher authority, it becomes necessary for two or more bureaus and offices to change their estimates. Because of the informality in transmitting such dicta, there have been too many instances where the information has not reached all concerned. This can be particularly serious when the downward adjustment is made by one bureau or office and the corresponding upward adjustment is not effected by the bureau or office to which the appropriation cognizance and expenditure responsibility supposedly has been transferred.

A further objection to the informal method of transmitting highly important budgetary information is found in the end result. If a bureau or office of the Navy has stated its true requirements and has later received arbitrary reductions, informally, and is forced, under the pressure of time, to revise its estimates or official interpretation of criteria (irrespective of its reclama--





sometimes oral, perhaps in a telephone conversation), the bureau or office affected becomes the first to reduce anything to writing in the transaction and appears, thereby, to have originated the entire idea. The passage of time further obscures what actually happened and, later, at times, has produced the rather anomalous situation of the Bureau of the Budget inquiring into the reason why the reduction was made by the bureau or office. Under such a circumstance, "strong men weep."

Unfortunately, no improvement can be suggested in the method cited above for transmittal of budgetary information. If it becomes necessary to reduce every move to writing, the time required to produce the Military's budget would be extended by months and would obviate the possibility of developing an annual budget within the time limits required by the Congress. Fortunately, there are few instances which can be called to mind where anything more serious than confusion of information has been experienced in this method of transmitting important information. The great majority of those involved in this intricate process of military budgeting are able, serious-minded men, anxious to do the right thing.

#### Summary

The pressures applied to the military budget, are, indeed, multiple in their scope and variety. The Congress; the Executive Office of the President and all of its high advisory staffs; the general public; the Office of the Secretary of Defense; the bureaus and offices--in the case of the Navy Department, the local field activity command--all have a variety of interests to be served, and all bring whatever pressure lies at their hands to realize their respective aspirations and objectives. To not be aware of these realities would be most naïve of one who finds himself actively engaged in some phase of the effort of military budgeting.





## CHAPTER III

SPECIAL PROBLEMS INHERENT IN  
MILITARY BUDGET WORK

While there are numerous sources of pressure which complicate the process of military budget work, there are also a number of unsolved problems inherent in the task which one engaged in this type of work must learn to live with. A few of these problems are discussed briefly in the following paragraphs.

Common Format--Its Deceptions

It is generally conceded that no one person, or, for that matter, no one agency, is capable of comprehending the colossus that lies behind the budget of the United States. Congress recognizes this and appoints special groups for appropriation sub-committees to examine segments of the budget. For simplicity's sake, probably, the budget document is prepared in a single prescribed format specified by the Bureau of the Budget, whether the object of a particular segment of the budget is to provide for maintenance and operating expenses for the Bureau of Ordnance of the United States Navy or for the Soil Conservation Service of the Department of Agriculture. When these two widely divergent efforts are expressed in terms of common format of the budget, their significant differences become partially obscured to the reviewing appropriations sub-committee and those conducting other high level reviews. The brevity which is prescribed for narrative justifications often causes inadvertant concealment of significant facts--significant to the preparing agency striving adequately to explain its program. The near-perfection of the composition of the narrative justifications by the time that they have been edited and re-edited several times also carries





its own deceptions—it's simply too pat. It is the opinion of the writer that too many of those reviewing the document lose the awareness that the budget document is, at best, a thumbnail sketch of the functions to be financed. The obscuring of identity of the programs by the time they have reached Congress for review would seem to render much of the proceedings but annual ritual, rather than a searching review of actual requirements. The late and revered James V. Forrestal epitomizes this view in the following quotation:

Even a single one of the armed services, like the Navy, is so big and sprawling during war, that it becomes unresponsive and unwieldy under highly centralized direction. This defect would treble, at least, if the Army, Navy, and Air Force were rolled together. No single head of such an agglomeration could assemble, assimilate, and assess the data he would need to make a multitude of administrative decisions. Nor could he build a staff numerous enough to police his decisions once they were made.<sup>1</sup>

Add to the Army, Navy and Air Force, all of the other agencies of the Government and consider how unlikely it is that their financial requirements, alone, could be adequately reviewed and compiled by a single agency into one, meaningful document. Yet, the very submission of a budget document in common format would lead the reviewing authority to believe that it has been done, and, further, that the Budget Bureau knows the full significance of the contents of the document.

While it is true that the Bureau of the Budget knows a great deal about the budget, it cannot know the budget in the same sense that the controller of a corporation is expected to be intimately familiar with the operating programs represented by the budget of his concern. The same general criticism might be applied to the departmental budgets and those whose duty it is to compile, present and defend them before the Secretary of Defense, the Budget Bureau, and the Congress. The field operating personnel seldom have the opportunity to defend

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<sup>1</sup>Walter Millis and Eugene S. Duffield (eds.), The Forrestal Diaries, New York: Viking Press, Inc., 1951.

The Commission has been asked to consider the possibility of a new  
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 Commission's work. It is suggested that this body should be  
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their programs, except through the medium of submissions from the field of activity budget estimates. Administrative personnel in Washington take over the task of presentation and defense, frequently making important revisions in the field estimates without the knowledge or advice of the field activity. In some instances, maintenance and operating expense budgets are prepared in Washington without reference to the field activities concerned!

But, irrespective of the variety of approaches to budgeting which are blended into the final document, it is reasonably certain that the format, at least, will be consistent.

#### The Transition in Budget Office Personnel Staffing

Section 403, Title IV of Public Law Number 216, Eighty-first Congress, specified that the function of Comptrollership would be established in each of the military departments under an Assistant Secretary and, further, that the function would be established in field activities wherever appropriate. The Navy, in its implementation directive, included the following statement:

When officers occupy the comptroller position, it is considered highly desirable that a civilian assistant be assigned in the comptroller organizations in order to provide specialized knowledge and continuity to the conduct of comptroller functions.<sup>1</sup>

As a consequence of this expression of policy, there has been an expanding employment of civilian personnel in top supervisory budget positions at field and bureau and office levels. Comparatively, there are few naval officer personnel and virtually no enlisted personnel engaged in this work at the present time, and the majority of those who are so employed are usually employed in staff capacities. The unattractive features of this development are obvious to the "operator" type of naval officer, and have resulted in a shying away from billets in the field of Comptrollership. It appears that the dynamic part of the field

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<sup>1</sup>U.S. Government, Department of the Navy, SECNAV INSTRUCTION 5400.4, 18 November 1953, p. 7.





of Comptrollership has been virtually removed from the province of naval personnel, with certain outstanding senior billet exceptions highlighting this observation.

The serious nature of the personnel staffing problem is this. With the number of qualified naval officers spread so thinly across the field of Navy budget work, insufficient naval thinking is going into the budget. Further, too many of the highly placed civilian personnel, particularly at departmental level, have little or no substantive experience at the field operating level in the Navy, and, hence, have little in the way of practical knowledge to permit them to perform their work from the standpoint of the Navy. This has resulted, in part, from the free transfer of personnel that is encouraged by Civil Service regulations applicable to those employed in the Departmental service. A resultant "cross-breeding" of budget supervisory personnel has occurred to a remarkable degree.

The desired continuity sought by the Navy through employment of civilian personnel in top level budget positions cannot be said to have been realized. Few remain in their jobs for very long periods, even at the very top, due to frequent opportunities to improve their respective lots elsewhere. To a somewhat lesser extent, this is also found to be true in the field. At lower grade levels, persons of outstanding ability and promise usually find that they can improve their opportunities faster by taking employment in Industry. Their time in Civil Service serves them well by providing a relaxed period of training at an excellent beginning wage, but no material continuing contribution is made to the Navy which hopefully employs and trains them. Repeated instances of bitter disappointment lie ahead for the neophyte when he comes face to face with this acute problem, for, if he has acquired a young, excellent assistant comptroller, he will be fortunate to retain his services for an appreciable length of time.





### The Constant Problem of Change

The last broad problem that will be discussed relates to the high degree of vulnerability of the Military to frequent change. One of the greatest problems which must be faced is that the Profession of Arms is open to repeated scrutiny from so many sources that it is nearly impossible to maintain a consistent modus operandi without frequent and great changes being imposed in a variety of ways. In the field of budget work, this is multiplied, since it is one of the more vulnerable fields, not being veiled in the mystery of nuclear fission, guided missiles, electronics, and many other fields which enjoy relative "diplomatic immunity".

As a result of the efforts of the Hoover Commission, the Performance Budget<sup>1</sup> concept was established and this resulted in a complete change in the appropriation structure for the Navy and a completely new concept of budgeting. Forthwith, the Navy, as well as the other military departments, was called upon to learn a new system. This is not an easy task in an organization the size of the United States Navy, and is still not complete. Attendant to this revision in budgeting was a complete alteration in the Navy's accounting system<sup>2</sup> to conform to the new appropriation structure and to meet the requirements for budgetary information under the new method. However, in this instance, the change is believed to have been vitally necessary.

Another group, convened at the request of the Secretary of Defense, known as the Cooper Committee, has recently completed its study of the accounting methods employed by the military departments, and important recommendations for

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<sup>1</sup>U.S. Congress, House. P.L. 216, 81st Cong., Amend. to Natl. Security Act, 1947, Sec. 403, Title IV. Washington: Govt. Ptg. Office, 1949.

<sup>2</sup>U.S. Congress, House. P.L. 784, 81st Cong, 2d Sess., Budgeting and Accounting Procedures Act of 1950. Washington: Govt. Ptg. Office, 1950.





change are certain to result from its findings. A new Hoover Commission study is in the offing, and still other changes in all probability will be forthcoming.

Many of the changes recommended to be effected in the Military's budget and accounting methods are either necessary or desirable, and it is encouraging to observe so many public-spirited, eminently well-qualified citizens striving to perfect these methods in the Military. However, the writer long has believed that there always has been sufficient intellect, ability, initiative, and appreciation of this need within the Military to develop appropriate ways and means of doing things; however, the continued availability of sufficient numbers of trainable or trained conscientious civilian and military personnel to execute plans has been sadly lacking. There are plenty of personnel, but too many seem to know that they do not have to be highly efficient to hold their jobs unless they so desire. The earnest hard worker seems to be the exception rather than the rule. Further, the ceilings of both civilian and military personnel have been subjected to continuous, and sometimes wild, fluctuation imposed since the close of World War II by those who would insist on increased efficiency. Even now, newly revised military personnel objectives will further militate against reaching a period of relative normalcy in staffing for the next year or more, let alone invoking sweepingly new methods of whatever sort. How, then, under these conditions, can appreciably increased efficiency be expected? It seems strange that such frustrating problems as these are not recognized in their proper sequence--it would appear that solutions to personnel staffing problems would be among the foremost of recommendations by investigating groups. It seems irrefutable that the right people to do a job must be secured if the job is to be done successfully.

There are several groups who are required to keep an official eye on what the Military does--the General Accounting Office; the Inspectors General; the Boards of Analysis and Review--and the objectives of all must be served.





Needless to say, then, there are divers inroads made on the time of those in the Military who are attempting to do the job of budgeting and accounting. Nevertheless, these inroads are the normal expectation, rather than the exception to the rule. Many others have not been mentioned, but those indicated above will give the reader an idea of an inherent problem in budget work which will probably never be solved. An inordinately large amount of one's time is devoted to telling all of these interested parties what is being done or changing methods to conform to their ideas of how it should be done.

#### Summary

Again, it is desired to emphasize that the citation of the problems mentioned above is not to be construed primarily as criticism, but rather, it is intended to recognize the problems which must be met and dealt with as a matter of course.

One should not be misled by the format of the budget to believe it is an all-inclusive, infallible source of information on the Military's financial requirements. It is not, and cannot be; however, the requirements of the Government must be stated in some manner so that they can be acted upon by Congress in a reasonably organized, reasonably complete approach. The method now in use probably is the best yet devised.

In entering the field of budget work, one should realize the problems of personnel staffing and that the theories and practices encountered do not necessarily coincide.

Outside experts are always with us, and always will be. From them will be derived many long-range benefits, while a great deal of time will also be devoted to dealing with them. Much of the time invested in these efforts will seem misspent in consideration of the tasks of more immediate local importance and urgency.





All of these problems are part and parcel of the overall task of military budgeting.



## CHAPTER IV

### NEEDED IMPROVEMENTS

Anyone who devotes concerted effort to thinking about the process of military budgeting, and the inherent pressures and problems of that field of endeavor, is bound to reach some personal conclusions regarding improvements which can and should be made. The writer is no exception and feels that there are certain improvements which could be made to simplify the overall task without the necessity for a complete revision in methodology. Most of the suggested areas for improvement will probably be considered trite, so frequently are they advanced as suggested, partial cures for deficiencies found in virtually any type of administrative work in the Military. Perhaps it would be more appropriate to label these suggestions as continuing needs.

#### A Ceiling on the Cost of Costing

During the course of the first six months of the curriculum of the Navy Graduate Comptrollership Program, George Washington University, 1954-1955, numerous comptrollers from Industry have informed the student officers on many phases of the businesses they represent. A frequent question put to these gentlemen has concerned the ratio of investment in comptrollership expense to the overall budget. In the majority of instances, the replies were responsive and definite--the costs of all functions performed by these comptrollers range from five to ten percent of the annual operating expense budgets. In contrast to this, it is doubtful that any agency of the Government, including the Bureau of the Budget, knows the full costs incurred in the budget and accounting processes.





Paul Haase, in a brief article<sup>1</sup>, estimates that thirty million dollars is invested in the Federal budget drafting process, alone. If capital expenditures were excluded from the total Federal budget, it is believed that the percentage of the remainder, maintenance and operating expenses, devoted to budget and accounting costs would prove to be a staggeringly high percentage in comparison with Industry's experience.

It would be virtually impossible, for instance, to estimate the cost of special record keeping developed to avoid punishment specified by law for over-obligation or over-expenditure of appropriated funds.<sup>2</sup> It is a fact that an over-obligation or over-expenditure of one cent must be reported to the Secretary of the Department, via all intermediate commands, bureaus and offices, naming the responsible officer or officers. This stifflingly rigid requirement is costing an untold amount for special controls; yet, the basic reason for its establishment probably seemed important to the appropriations committees and Congress--it must have, for a fine of \$5,000 and two years in prison is stipulated for conviction of guilt.<sup>3</sup> While, to the knowledge of the writer, no one has been prosecuted pursuant to this provision of law, many official reports of trivial violations of the letter of the law have been observed. An allotment administrator in the field will go a long way to insure that he will not have to report himself to the Secretary of his department. And he does. It is believed to be vitally necessary that some method be devised, utilizing the existing accounting and reporting system, to discover what it is costing the Government, and the Military in

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<sup>1</sup>Paul Haase, "\$30 Million Just to Draft Budget", The Controller, February 1954, p. 57.

<sup>2</sup>U.S. Congress, House, P.L. 759, 81st Cong., 2d Sess., H.R. 7786, Sec. 1211, Appropriation Act for the Fiscal Year ending June 30, 1951. Washington: Govt. Printing Office, 1950.

<sup>3</sup>Ibid.





particular, to carry out its responsibilities in the field of budget and accounting. This could lead to the establishment of standards for such administrative type costs.

### A Management Survey

There are many qualified management engineering personnel employed in the Government and the Military today. In addition, there are a number of competent firms of management consultants capable of conducting large-scale surveys. Such a survey is sorely needed, today, in the Federal Government's budget and accounting field, not for the purpose of completely revising the methods in use, but for the purpose of work simplification. Such a survey could commence with the obvious, glaring faults of the present budget system. It is almost certain that, if Congress knew what it was costing in overtime and its attendant wastes to meet its time schedule, i.e., submission of the budget to Congress in early January, Congress would change its information requirements. To verify this contention, all the reader needs to do is drive past the Pentagon on any evening or weekend after the Bureau of the Budget has issued another of its emergency calls for information. This scene is repeated all over Washington wherever a Government bureau or office budget agency is located. Due to original delays in publishing criteria or other necessary guidance, practically all budget information is prepared on an emergency or near-emergency basis.

It would be necessary for a selected group of highly competent Government and private comptrollers and accountants to work with such a management methods survey group. It is believed that such a survey would inevitably lead to an analysis of the basic budget methods and requirements for information specified by the Bureau of the Budget and what must be done at all lower echelons to meet those requirements. It would be very interesting, for instance, to discover what substantive use is made of the reams of schedules which must be prepared pursuant





to the Budget Bureau's requirements, and what it is costing to prepare them.

Until a recent reorganization within the Bureau of the Budget, the responsibility for overall improvement in administrative methods in the Government has rested with a special section of that Bureau. Each major division is now responsible for its own program of methods improvement. Therefore, this suggestion would probably have to be implemented by a commission similar to the Hoover Commission.

The scope of the survey to be conducted would, necessarily, be required to be strictly and clearly limited, for there would be the constant possibility of such a survey going off on a tangent. It is believed that the work of such a group could be confined to Washington and the near vicinity. It is also believed that a great deal of the information developed by the Hoover Commission task forces and the Cooper Committee would obviate a great deal of effort that might otherwise be required. Such a survey might well result in a significant simplification and improvement in budget and accounting methods.

#### A Re-Assessment of the Personnel Policies in the Field of Military Budgeting

It is believed that the trend toward preponderant civilian staffing of the budget offices in the Military is a mistake. To those who do not think in a military way, or who work in an atmosphere which is predominantly civilian rather than military, the budget on which they work tends to become an end in itself--a mere compilation of numbers--an academic problem. A greater incidence of military personnel engaged in this effort would go far toward preventing inexperienced, though technically competent, thought from pervading the budget document produced.

A more important aspect of personnel policy deserves attention. While the majority of those working on the preparation of the military budget are civilian, the ultimate responsibility for the adequacy of that budget attaches itself to the





Military, alone. To illustrate, who was blamed for the inadequate defense of Pearl Harbor? The Presidents then current and past? The legions of Congressmen who had all had a part in the reductions in the military readiness to its woefully inadequate state in 1941? Departmental civilians? The ultimate effects of military budget mistakes often take years for their full force and effect to be known, and when the finger of scorn is pointed, the incumbent military leaders must resignedly divide up the responsibility for all past blunders and bear the shame. It is a cardinal principle in management that authority and responsibility must accompany each other, and if the responsibility for the protection of the United States rests with the Military, the reasonable means of authority should accompany that assignment. However, outside, and seemingly outrageous, interferences with personnel staffing prerogatives and attendant necessary misassignment of administrative authority to civilians is debilitating the exercise of that authority. It is believed that this anomalous situation is the result of an historic lack of understanding by higher authorities of the true meaning of the principle of civilian control of the Military. Civilian control does not mean civilian staffing.<sup>1</sup> Yet, there has been an inexorable trend since 1947 toward maximum civilian staffing of the highest echelons of the military departments and the Office of the Secretary of Defense. This has taken place to a higher degree in the predominantly administrative type tasks, such as budget and accounting work, where military personnel are few and far between.

#### Summary

It is a fair surmise that it is costing the taxpayers too much to develop the Federal budget and to account for the expenditure of public funds, because

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<sup>1</sup>Eugene S. Duffield, "Organizing for Defense", Harvard Business Review, September-October 1953, pp. 29-42.





this cost has never been established. The field of budget and accounting, for this partial reason, is an administrative windfall to some, since, for lack of control, it provides almost unlimited opportunity for empire building. The management survey suggested would probably unearth some excellent examples of this, and would contribute extensively to reduced costs in the important administrative area of budget and accounting work. Likewise, a frank reappraisal of personnel policies could be productive of intangible benefits in the form of more meaningful budgeting as a result of a greater incidence of military thinking in the military budget and a closer alignment of authority and responsibility.



## CHAPTER V

## CONCLUSION

It is again desired to reiterate that the purpose of this paper is to highlight the pressures and problems which are inherent in budget work, particularly in the Navy. Hundreds of pages would be required adequately to analyze the subject matter discussed herein and the suggestions for improvement advanced. Some of the statements made are generalizations and are believed to be factual, though difficult to substantiate except through personal experience and in the light of personal opinion.

Despite some practices which are frustratingly difficult to deal with, it is also believed that there has been a continuing general improvement in budget and accounting methods, at least as far as the Navy is concerned. This has been due, in part, to improved guidance and direction from the Bureau of the Budget, improved coordination and methods within the Navy through the combined efforts of the Office of the Navy Comptroller and the Bureau of Supplies and Accounts, and development of skills of individuals.

It is of utmost importance that this trend be continued and that every avenue for improvement be explored. An awareness of the pressures and problems inherent in the task will help individuals concerned to contribute toward that goal.





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